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This report reflects the views of the authors and not necessarily those of the Ontario Economic Council. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy and was made with the advice of anonymous referees expert in the area.





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TORONTO, October 15, 1980 -- The level of youth unemployment in Canada has not only risen in recent years but the proportion of unemployed youth to adults has also increased, a study released today by the Ontario Economic Council says.

Unemployment and Labour Force Behaviour of Young People:
evidence from Canada and Ontario was prepared for the Council by McMaster University economists F.T. Denton, A.L. Robb and B.G. Spencer. The study examines some of the factors which may contribute to the high youth unemployment rate, the impact of youth unemployment on national output and the characteristics of unemployed youth in the labour force.

"There have been substantial basic upward shifts in the rates for all of the age groups under 25, with increases in the rates for young women especially pronounced," the authors found. "The high youth rates of the 1970s are certainly correlated with the general state of the Canadian labour market, but evidently they are related to other factors as well. The evidence suggests that youth unemployment rates would remain relatively high even if the rates for males 25-54 were to fall quite low."

Denton, Spencer and Robb consider a number of factors which might account for the rise in youth unemployment in recent years. They note that the 86 per cent increase in Canada's youth labour force in the 15 years leading up to 1975 was the highest among OECD countries. "To the extent that the youth bulge has affected labour markets, Canada is likely to be one of the countries most affected."

The authors argue, however, that while these demographic changes may explain the growth in youth unemployment in absolute numbers, there is only superficial evidence to suggest that they have given rise to a higher youth/adult unemployment ratio. They point out that in countries such as Italy, Great Britain and Germany where the youth labour force has declined, the ratio of unemployed youth to adults has still increased.

The study also considers the effects of minimum wage legislation and the liberalization of unemployment insurance regulations in 1971 on youth unemployment. In reviewing other studies dealing with these effects, the authors conclude that "minimum wage and unemployment insurance regulations may have contributed something to youth unemployment, but how much has in our opinion not been demonstrated." They add that "the trend towards higher youth rates is evident well before 1971 and certainly cannot be accounted for by the unemployment insurance changes later that year and the next."

In considering the costs of unemployment among young people, the authors construct a theoretical model which attempts to measure the effects of youth unemployment on Canadian GNP. While emphasising that their calculations are rough, they found that "the direct or primary effects of cutting youth unemployment rates in half in 1977 would have been to increase Canadian GNP by 1 per cent, or roughly \$2 billion at 1977 prices. Including secondary effects as well, the total increase would perhaps have been of the order of 4 per cent or \$8 billion."

The study analyses the relationship between youth employment and a number of characteristics of the youth labour force including age, sex, marital status, relationship to head of family, education and current school-enrolment status. The authors found that the probability of an individual being employed varied directly with age and level of education. As well, young men were shown to have a greater likelihood of participating in the labour force than young women.

Finally, the authors argue that youth employment policies cannot be formulated realistically except in the context of employment policies generally. "If the increased employment of young people is just a make-work arrangement, with no meaningful increase in national or provincial product, there is an implicit redistribution of total income; the policy is in effect a transfer policy, in spite of its employment aspect. On the other hand if the increase in youth employment yields a useful product, will the level of aggregate demand increase so as to absorb the additional product? If not, there will be an implicit reallocation of jobs to the youth group and away from other groups in the labour force."

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SELECTED QUOTATIONS

"But things did not work out as anticipated. The rate of economic growth slowed in the 1970s, just as large numbers of post-war babies were reaching working age and pouring onto the job market. Unemployment rates have recently risen to levels not equalled since the depression of the 1930s, and while all groups in the labour force have been affected the rates for young people have been especially high. In 1977 the Canadian unemployment rate averaged 8.1 per cent but for persons under 25 years of age it averaged 14.5 per cent." (pp. 3-4)

"The situation changed sharply in the 1960s. The age structure of the population shifted in response to the rising birth rates of fifteen or twenty years earlier, and young people began to enter the labour market in rapidly increasing numbers. The participation rates of young women were rising too, especially of those in their early twenties. The total number of workers under 25 grew by some 23 per cent between 1959 and 1965 and by 33 per cent between 1965 and 1971. During the same periods the female component of that total increased by 29 and 39 per cent respectively. The growth in the Canadian labour force was drawn primarily from domestic sources and in large measure from the ranks of youth. The high rates of growth continued into the 1970s. The Canadian youth labour force increased by 29 per cent between 1971 and 1977, and the female component by 30 per cent. The growth rates in Ontario were slightly higher over the same period, but the general pattern was similar." (pp. 9)

The pronounced seasonal swings in the size of the youth labour force are a consequence mainly of the large inflows of students in the late spring and early summer and the correspondingly large outflows at the end of the summer. By far the largest part of seasonal variation in the Canadian labour force as a whole is attributable to these movements of students.

Unemployment rates tend to be much higher for young people than for older workers throughout the whole of the year, but the concentration of job-seeking beginning in May imparts a special seasonal character to the youth market. In a separate examination of the student population, those not planning to return to school in the fall were observed to have higher unemployment rates than those who were planning to return. This observation may reflect a greater desire to find 'the right job' among the former. Even in September, when employment conditions are at their seasonal best, and after several months of job-seeking the rates for 'non-returning' students remained very high." (pp. 196-197)

"In an open economy such as Canada's, aggregate demand, and the level of macroeconomic performance generally, depend heavily on external conditions. Governments can exert an influence, of course, but their control is restricted by international circumstances, especially those in the United States and in Canada's other major trading partners. How much can the government of a province - even a large one - by itself affect aggregate demand and hence unemployment levels?" (pp. 201)

"It seems entirely probable that the relatively high unemployment rates of this group will come to an end as the group ages, and that the present concern about unduly rapid expansion of the labour force will give way to concern about the implications of slow labour force growth. Looking to the future, then, a major focus of policy debate and the associated research effort should be the consequences of the lower growth rates in prospect for the 1980s and beyond and the appropriate response of public policy to these lower rates." (pp. 203)

